

103^D CONGRESS
1ST SESSION

H. R. 2480

To amend the Internal Revenue Code of 1986 to provide an exclusion for all dividends and interest received by individuals.

IN THE HOUSE OF REPRESENTATIVES

JUNE 22, 1993

Mr. CRANE introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide an exclusion for all dividends and interest received by individuals.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. EXCLUSION OF DIVIDENDS AND INTEREST RE-**
4 **CEIVED BY INDIVIDUALS.**

5 (a) IN GENERAL.—Part III of subchapter B of chap-
6 ter 1 of the Internal Revenue Code of 1986 (relating to
7 amounts specifically excluded from gross income) is
8 amended by inserting after section 115 the following new
9 section:

1 **“SEC. 116. EXCLUSION OF DIVIDENDS AND INTEREST RE-**
2 **CEIVED BY INDIVIDUALS.**

3 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-
4 come does not include the sum of the amounts received
5 during the taxable year by an individual as—

6 “(1) dividends from domestic corporations, or

7 “(2) interest.

8 “(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection
9 (a)(1) shall not apply to any dividend from a corporation
10 which, for the taxable year of the corporation in which
11 the distribution is made, or for the next preceding taxable
12 year of the corporation, is a corporation exempt from tax
13 under section 501 (relating to certain charitable, etc., or-
14 ganization) or section 521 (relating to farmers’ coopera-
15 tive associations).

16 “(c) SPECIAL RULES.—For purposes of this sec-
17 tion—

18 “(1) DISTRIBUTIONS FROM REGULATED IN-
19 VESTMENT COMPANIES AND REAL ESTATE INVEST-
20 MENT TRUSTS.—Subsection (a) shall apply with re-
21 spect to distributions by—

22 “(A) regulated investment companies to
23 the extent provided in section 854(c), and

24 “(B) real estate investment trusts to the
25 extent provided in section 857(c).

1 “(2) DISTRIBUTIONS BY A TRUST.—For pur-
 2 poses of subsection (a), the amount of dividends and
 3 interest properly allocable to a beneficiary under sec-
 4 tion 652 or 662 shall be deemed to have been re-
 5 ceived by the beneficiary ratably on the same date
 6 that the dividends and interest were received by the
 7 estate or trust.

8 “(3) CERTAIN NONRESIDENT ALIENS INELI-
 9 GIBLE FOR EXCLUSION.—In the case of a non-
 10 resident alien individual, subsection (a) shall apply
 11 only—

12 “(A) in determining the tax imposed for
 13 the taxable year pursuant to section 871(b)(1)
 14 and only in respect of dividends and interest
 15 which are effectively connected with the conduct
 16 of a trade or business within the United States,
 17 or

18 “(B) in determining the tax imposed for
 19 the taxable year pursuant to section 877(b).”

20 (b) CLERICAL AND CONFORMING AMENDMENTS.—

21 (1) The table of sections for part III of sub-
 22 chapter B of chapter 1 of such Code is amended by
 23 inserting after the item relating to section 115 the
 24 following new item:

 “Sec. 116. Exclusion of dividends and interest received by individ-
 uals.”

1 (2) Paragraph (2) of section 265(a) of such
2 Code is amended by inserting before the period at
3 the end thereof the following: “, or to purchase or
4 carry obligations or shares, or to make deposits, to
5 the extent the interest thereon is excludable from
6 gross income under section 116”.

7 (3) Subsection (c) of section 584 of such Code
8 is amended by adding at the end thereof the follow-
9 ing new sentence:
10 “The proportionate share of each participant in the
11 amount of dividends or interest received by the common
12 trust fund and to which section 116 applies shall be con-
13 sidered for purposes of such section as having been re-
14 ceived by such participant.”

15 (4) Subsection (a) of section 643 of such Code
16 is amended by inserting after paragraph (6) the fol-
17 lowing new paragraph:

18 “(7) DIVIDENDS OR INTEREST.—There shall be
19 included the amount of any dividends or interest ex-
20 cluded from gross income pursuant to section 116.”

21 (5) Section 854 of such Code is amended by
22 adding at the end thereof the following new sub-
23 section:

24 “(c) TREATMENT UNDER SECTION 116.—

1 “(1) IN GENERAL.—For purposes of section
2 116, in the case of any dividend (other than a divi-
3 dend described in subsection (a)) received from a
4 regulated investment company which meets the re-
5 quirements of section 852 for the taxable year in
6 which it paid the dividend—

7 “(A) the entire amount of such dividend
8 shall be treated as a dividend if the aggregate
9 dividends and interest received by such com-
10 pany during the taxable year equal or exceed 75
11 percent of its gross income, or

12 “(B) if subparagraph (A) does not apply,
13 a portion of such dividend shall be treated as
14 a dividend (and a portion of such dividend shall
15 be treated as interest) based on the portion of
16 the company’s gross income which consists of
17 aggregate dividends or aggregate interest, as
18 the case may be.

19 For purposes of the preceding sentence, gross in-
20 come and aggregate interest received shall each be
21 reduced by so much of the deduction allowable by
22 section 163 for the taxable year as does not exceed
23 aggregate interest received for the taxable year.

24 “(2) NOTICE TO SHAREHOLDERS.—The amount
25 of any distribution by a regulated investment com-

1 pany which may be taken into account as a dividend
2 for purposes of the exclusion under section 116 shall
3 not exceed the amount so designated by the com-
4 pany in a written notice to its shareholders mailed
5 not later than 45 days after the close of its taxable
6 year.

7 “(3) DEFINITIONS.—For purposes of this sub-
8 section—

9 “(A) The term ‘gross income’ does not in-
10 clude gain from the sale or other disposition of
11 stock or securities.

12 “(B) The term ‘aggregate dividends re-
13 ceived’ includes only dividends received from do-
14 mestic corporations other than dividends de-
15 scribed in section 116(b)(2). In determining the
16 amount of any dividend for purposes of this
17 subparagraph, the rules provided in section
18 116(c)(1) (relating to certain distributions)
19 shall apply.”

20 (6) Subsection (c) of section 857 of such Code
21 is amended to read as follows:

22 “(c) LIMITATIONS APPLICABLE TO DIVIDENDS RE-
23 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

24 “(1) IN GENERAL.—For purposes of section
25 116 (relating to an exclusion for dividends and inter-

1 est received by individuals) and section 243 (relating
2 to deductions for dividends received by corpora-
3 tions), a dividend received from a real estate invest-
4 ment trust which meets the requirements of this
5 part shall not be considered as a dividend.

6 “(2) TREATMENT AS INTEREST.—In the case of
7 a dividend (other than a capital gain dividend, as de-
8 fined in subsection (b)(3)(C)) received from a real
9 estate investment trust which meets the require-
10 ments of this part for the taxable year in which it
11 paid the dividend—

12 “(A) such dividend shall be treated as in-
13 terest if the aggregate interest received by the
14 real estate investment trust for the taxable year
15 equals or exceeds 75 percent of its gross in-
16 come, or

17 “(B) if subparagraph (A) does not apply,
18 the portion of such dividend which bears the
19 same ratio to the amount of such dividend as
20 the aggregate interest received bears to gross
21 income shall be treated as interest.

22 “(3) ADJUSTMENTS TO GROSS INCOME AND AG-
23 GREGATE INTEREST RECEIVED.—For purposes of
24 paragraph (2)—

1 “(A) gross income does not include the net
2 capital gain,

3 “(B) gross income and aggregate interest
4 received shall each be reduced by so much of
5 the deduction allowable by section 163 for the
6 taxable year (other than for interest on mort-
7 gages on real property owned by the real estate
8 investment trust) as does not exceed aggregate
9 interest received by the taxable year, and

10 “(C) gross income shall be reduced by the
11 sum of the taxes imposed by paragraphs (4),
12 (5), and (6) of section 857(b).

13 “(4) NOTICE TO SHAREHOLDERS.—The amount
14 of any distribution by a real estate investment trust
15 which may be taken into account as interest for pur-
16 poses of the exclusion under section 116 shall not
17 exceed the amount so designated by the trust in a
18 written notice to its shareholders mailed not later
19 than 45 days after the close of its taxable year.”

20 “(c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply with respect to taxable years begin-
22 ning after December 31, 1993.

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